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A Comprehensive Analysis of India's Taxation System: Direct and Indirect Taxes (GST) Post Union Budget 2025

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Abstract:
The taxation system in India serves as the backbone of economic growth and public welfare. Taxes are essential for funding government expenditures, infrastructure development, and social welfare schemes. This paper presents a detailed examination of direct and indirect taxes in India, their implications, and the changes introduced in the Union Budget 2025. With a focus on the recent tax reforms, the study analyses their impact on various sectors, assesses revenue collection trends, and provides recommendations for policy improvements. Secondary data from government reports, financial institutions, and academic studies form the foundation of this research. The findings highlight key trends in taxation, sectoral effects of the budgetary amendments, and future policy directions for sustainable tax governance.
Keywords: Taxation, Direct Taxes, Indirect Taxes, GST, Union Budget 2025, Customs Duty, Income Tax, Corporate Tax, Tax Reforms, Revenue Generation, Tax Compliance

Introduction:

Important Definitions:

1. Taxes: Taxes are financial charges imposed by the government on individuals or entities to generate revenue for public expenditures, infrastructure development, and government services.
2. Direct Taxes: Direct taxes are levied on an individual's or entity's income and wealth and are paid directly to the government. These taxes are progressive and non-transferable.
3. Indirect Taxes: Indirect taxes are levied on goods and services instead of income or wealth. These taxes are paid by consumers but collected by businesses that act as intermediaries.
4. Goods and Services Tax (GST): A comprehensive, multi-stage tax levied on the supply of goods and services, replacing multiple indirect taxes like VAT and service tax.
5. Customs Duty: A tax imposed on imports and exports to regulate trade and generate government revenue.
6. Excise Duty: A tax on the production of goods within the country.
7. Wealth Tax: A tax on an individual's net wealth, though it is currently not applicable in India.

Objectives of the Study:

1. To analyse the structure, significance, and role of direct and indirect taxes in India.
2. To examine the impact of the Union Budget 2025 tax reforms on businesses, consumers, and government revenue.
3. To evaluate the implications of GST rate modifications on different industry sectors.

4. To compare the taxation framework before and after implementation of Budget 2025.
5. To provide recommendations for improving tax compliance and revenue collection efficiency.

Justification of the Objectives:

Taxation is a critical aspect of economic governance, influencing consumer behavior, investment patterns, and government funding. The recent budgetary changes have introduced structural reforms in taxation, necessitating an in-depth evaluation of their effectiveness. By understanding these developments, policymakers, businesses, and individuals can better navigate the evolving tax landscape and optimize financial planning.

Review of Literature:

The existing literature on taxation policies in India reveals a complex yet evolving framework shaped by economic needs, fiscal constraints, and regulatory reforms. Economic Times CFO (2025) discusses the changes in direct taxation in the Union Budget 2025 and their implications for corporate profitability and investor sentiment. Certicom Consulting (2025) examines indirect tax modifications, focusing on the challenges businesses face in GST compliance and how policy shifts have influenced their financial strategies.

A study by Financial Times (2025) emphasizes the need for simplification in India's taxation system to enhance compliance and reduce tax evasion. It argues that the administrative burden on businesses, particularly MSMEs, remains a significant challenge despite the efforts to streamline GST regulations. Additionally, Reuters (2025) highlights the impact of customs duty revisions on international trade, discussing how changes in import tariffs affect both domestic manufacturers and global supply chains.

Razorpay (2025) provides insights into GST rate slabs, analyzing their implications on various industry sectors, including consumer goods, hospitality, and technology. The Ministry of Finance (2025) offers official statistics on tax collection trends, showing how revenue streams have shifted post-Budget 2025. This data is crucial for understanding fiscal policy decisions and their long-term economic impact.

Other studies focus on compliance and enforcement. Economic Times CFO (2025) evaluates direct tax relief measures introduced in the budget, particularly those targeting middle-income groups and small enterprises. Certicom Consulting (2025) assesses regulatory challenges in India's taxation landscape, suggesting measures for better tax governance. Together, these studies offer a comprehensive understanding of India's taxation framework and the effects of recent policy changes.

Research Methodology:

This study is based solely on secondary data obtained from government reports, financial institutions, and industry publications. Data from the Union Budget 2025, Ministry of Finance reports, and financial news sources are analysed to derive insights into taxation trends.

The research methodology focuses on:

1. Reviewing tax-related legislative documents and policy papers.
2. Analysing statistical data on revenue collection and budgetary allocations.
3. Examining case studies of sectoral impact due to tax changes.
4. Comparing tax structures before and after the 2025 reforms.

Limitations of the Study:

1. The study does not include primary data such as taxpayer surveys or business interviews.

2. Frequent policy changes may limit the long-term applicability of the findings.
3. The study does not cover regional variations in state-level tax policies.

Discussion:

The taxation system in India is a crucial component of fiscal governance, directly affecting economic growth, business operations, and public welfare. Direct taxes, such as income and corporate taxes, are primary sources of government revenue and reflect the economic contributions of individuals and businesses. Corporate taxation in India has seen periodic revisions to balance government revenue needs with economic growth incentives. The Union Budget 2025 has introduced targeted tax reliefs to support small and medium enterprises while ensuring robust compliance mechanisms.

Indirect taxes, particularly GST, have transformed the Indian tax landscape by consolidating multiple levies into a unified system. The rationalization of GST rates under Budget 2025 aims to simplify compliance and boost consumer spending. However, businesses, especially MSMEs, continue to face challenges in adhering to GST regulations due to complex filing procedures and frequent policy updates.

One of the key changes in Budget 2025 is the revision of customs duties, which directly impacts trade competitiveness. The reduction in import duties on electronic components is expected to boost domestic manufacturing, aligning with the government's "Make in India" initiative. However, concerns remain regarding tariff structures on essential commodities, which could affect inflation and purchasing power.

Sectoral analysis indicates that the pharmaceutical and renewable energy industries benefit from tax incentives, promoting sustainable economic development. Meanwhile, high GST rates on luxury goods continue to be a point of debate, as they influence consumption patterns and industry growth.

A comparative analysis of pre- and post-Budget 2025 tax policies shows a trend toward simplification and increased digital monitoring to curb tax evasion. However, challenges persist in enforcement, requiring stronger regulatory frameworks and taxpayer education initiatives. The study underscores the importance of ongoing tax reforms to ensure equitable growth and economic stability.

Data Analysis:

1.GST Rates List:

In India, the GST rates in for 2025 are categorized as follows:

Sr	Particulars	GST Rates
1	Essential Items	0%
2	Basic Necessities	5%
3	Standard Goods	12%
4	Most Consumer	18%
5	Luxury and Sin Goods	28%

It can be said that the tax structure categorizes goods based on necessity and luxury. Essential items are tax-free, while basic necessities have a minimal 5% tax. Standard goods are taxed at 12%, and most consumer products fall under the 18% slab. Luxury and sin goods face the highest tax at 28%, discouraging excess consumption. This system balances affordability with revenue generation.

2.Changes in GST Rates for the year 2025 in India (New v/s old):

According to the Press Information Bureau, the GST Council has made the following new rate recommendations:

Sr	Category	Old GST	Category	Old GST
1	RailwaysGoodsandPartsunderChapter86	12%	18%	Costlier
2	Pens	12%	18%	Costlier
3	Metal Concentrates and Ores	5%	18%	Costlier
4	CertainRenewableEnergyDevices	5%	12%	Costlier
5	Recorded media reproduction and print	12%	18%	Costlier
6	Broadcasting, sound recordings, and licensing	12%	18%	Costlier
7	Printed material	12%	18%	Costlier
8	Packing containers and boxes	12%	18%	Costlier
9	Scrapandpolyurethanes	5%	18%	Costlier
10	Namkeens&ExtrudedSavouryFoodProducts	18%	12%	Cheaper
11	CertainCancerDrugs	12%	5%	Cheaper
12	Car&MotorcycleSeats	18%	28%	Costlier

It can be concluded from the above table that the GST revision increases taxes on railways goods, pens, ores, media, packaging, and vehicle seats, making them costlier. However, namkeens and certain cancer drugs are now cheaper due to tax reductions. This reflects a focus on essential healthcare relief while raising levies on industrial and consumer goods.

3. Source wise Revenue share:

Sr	Source of Revenue	Percentage Share
1	Borrowings & other liabilities	24%
2	Income Tax	22%
3	GST & other taxes	18%
4	Corporation Tax	17%
5	Non-tax receipts	9%
6	Union Excise Duties	5%
7	Customs	4%
8	Non-debt capital receipts	1%

It is cleared from the data that, the revenue distribution highlights heavy reliance on borrowings (24%), followed by income tax (22%) and GST (18%). Corporation tax contributes 17%, while non-tax receipts (9%), excise duties (5%), and customs (4%) play smaller roles. Non-debt capital receipts form just 1%, indicating a significant dependence on taxation and borrowing for revenue generation.

Conclusion:

The Union Budget 2025 introduces key reforms in India's taxation system, focusing on simplification, compliance ease, and sectoral growth. The rationalization of customs duties, changes in GST rates, and incentives for manufacturing aim to improve tax collection efficiency while supporting businesses. However, enforcement challenges and administrative complexities remain. The study concludes that a well-structured taxation policy is crucial for economic stability, requiring continuous monitoring and reform to align with global best practices.

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